



FEDERAL
RESERVE
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Tennessee State Funding Board

November 17, 2016

Lee Jones

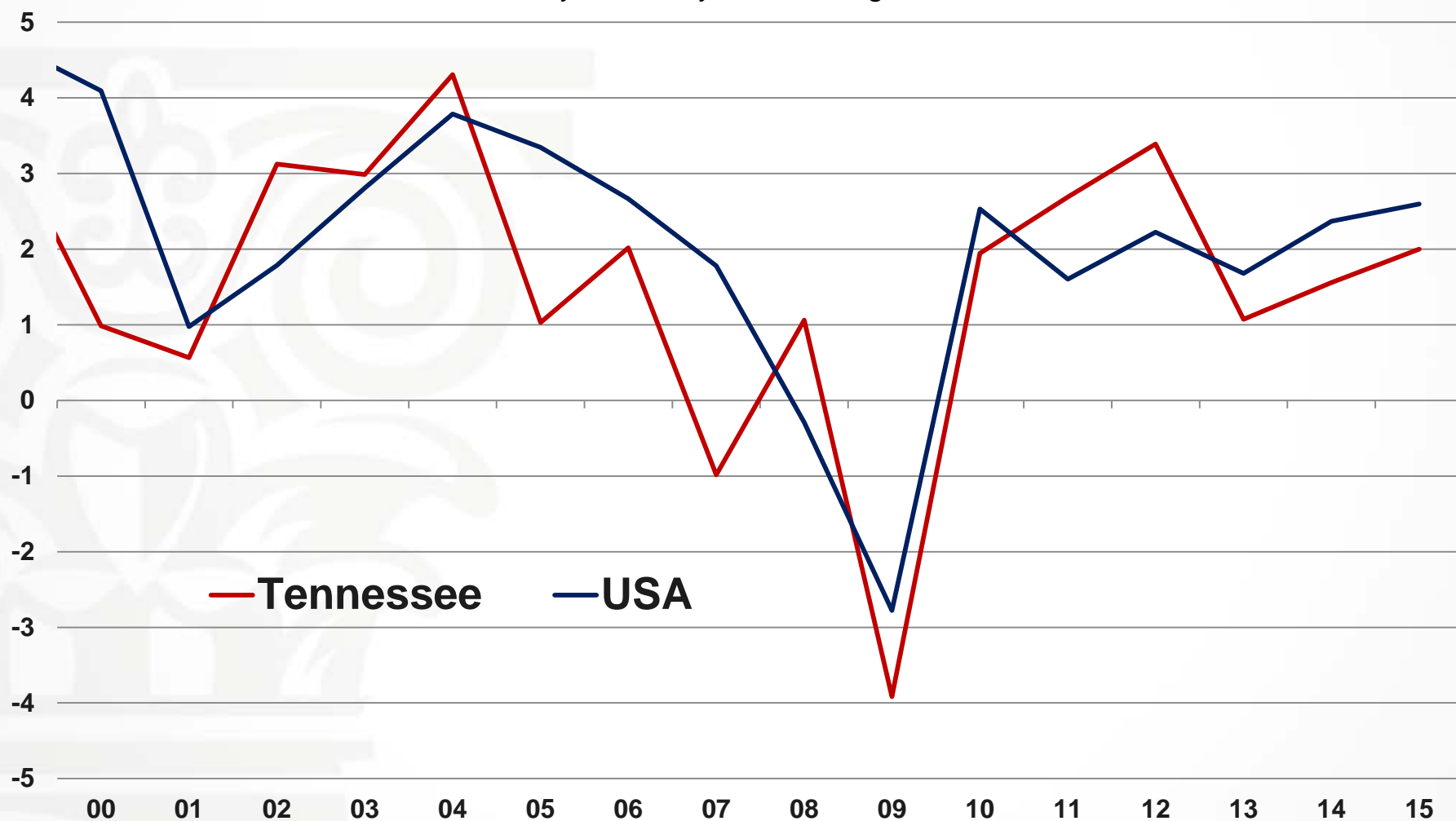
Regional Executive - Tennessee

The views expressed are mine and not necessarily those of the Atlanta Fed or the Federal Reserve System.

Tennessee's economic performance continues to closely mirror that of the United States

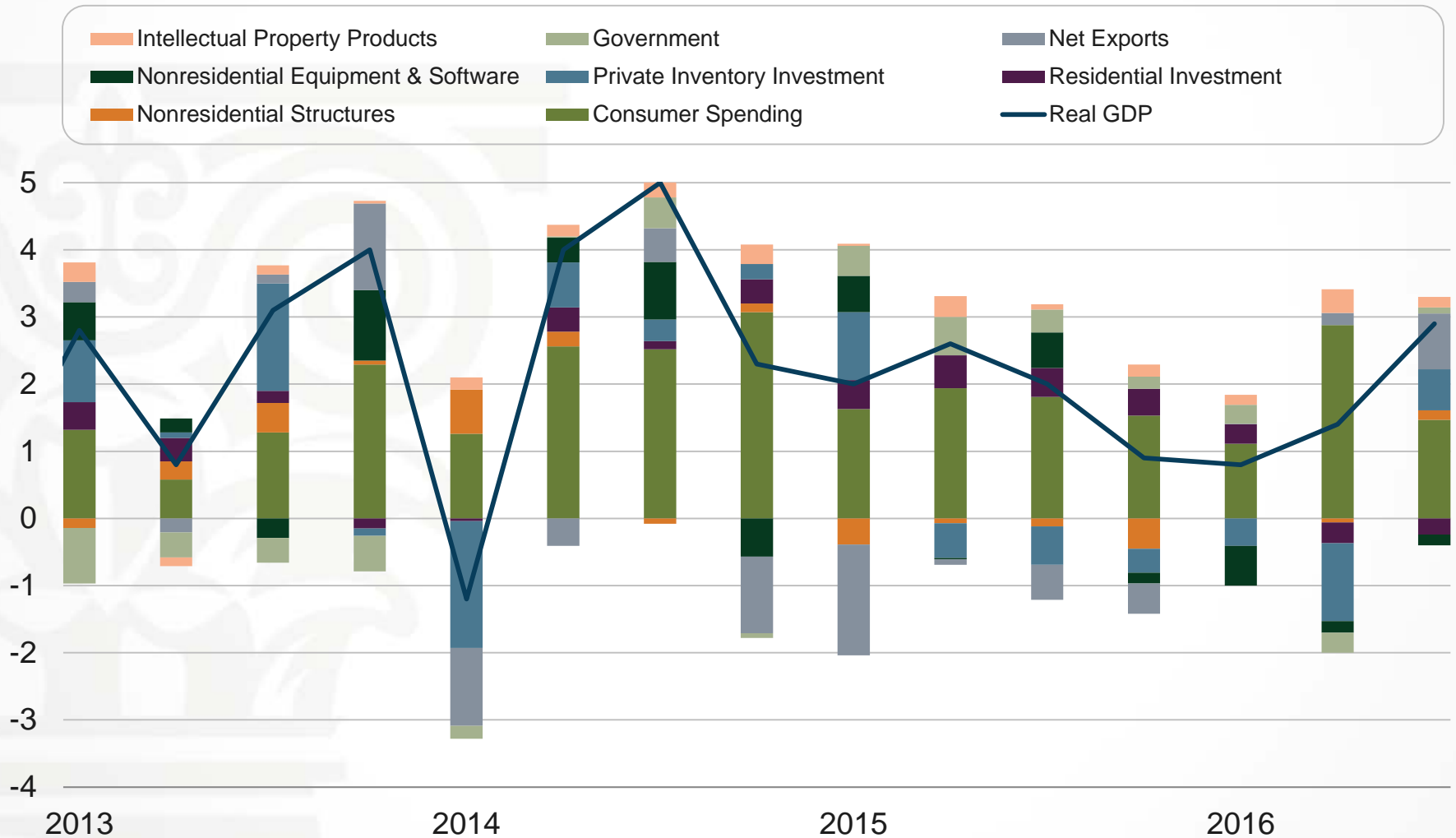
Economic Growth in Tennessee and the U.S., 2000-2015

year-over-year % change

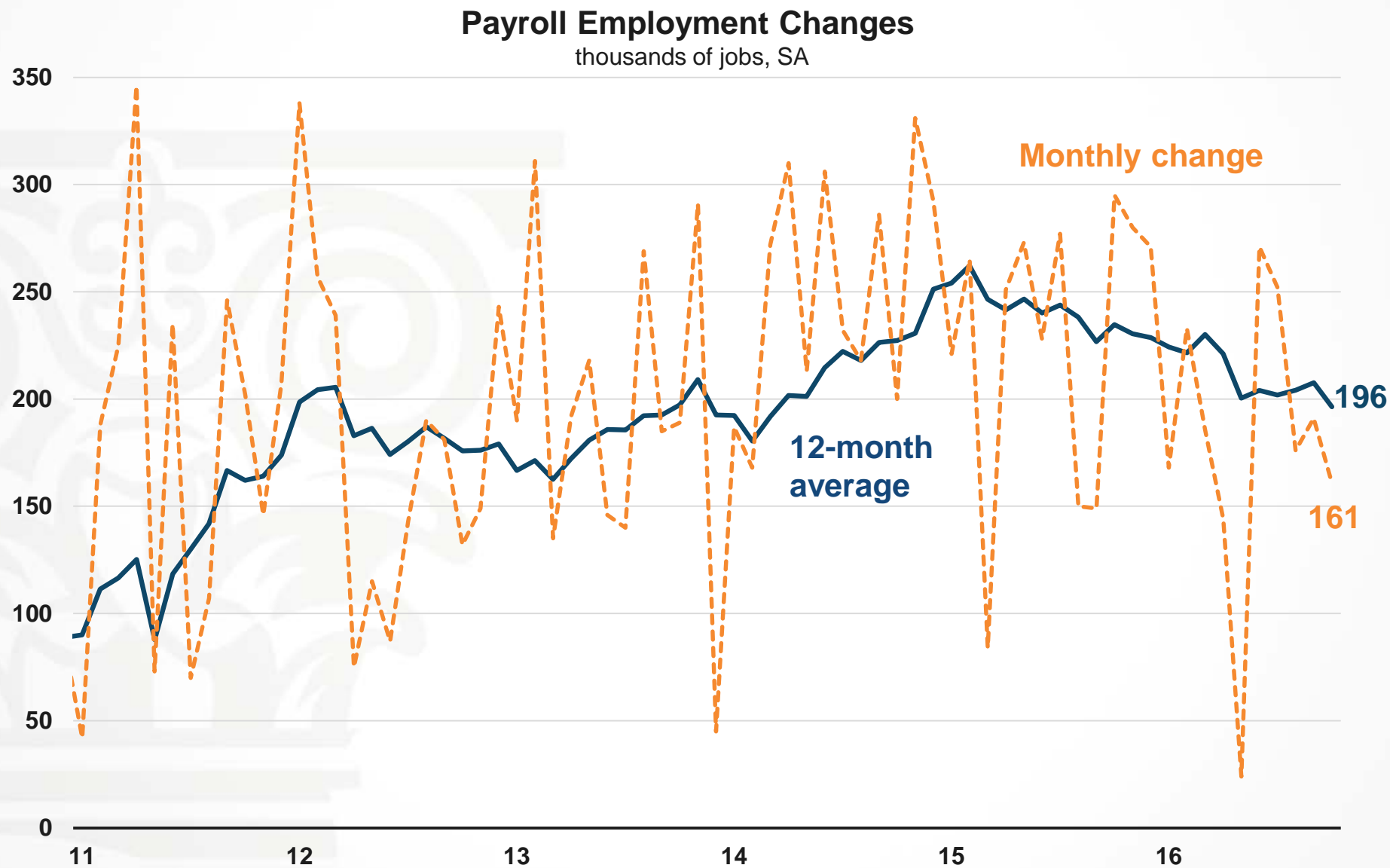


After several lackluster quarters, Real Gross Domestic Product grew 2.9% in Q3 2016, the largest quarterly gain in two years. Consumer spending (green) continues to be key to GDP growth.

Contributions to Real GDP Growth
quarterly, percent, seasonally adjusted annualized rate



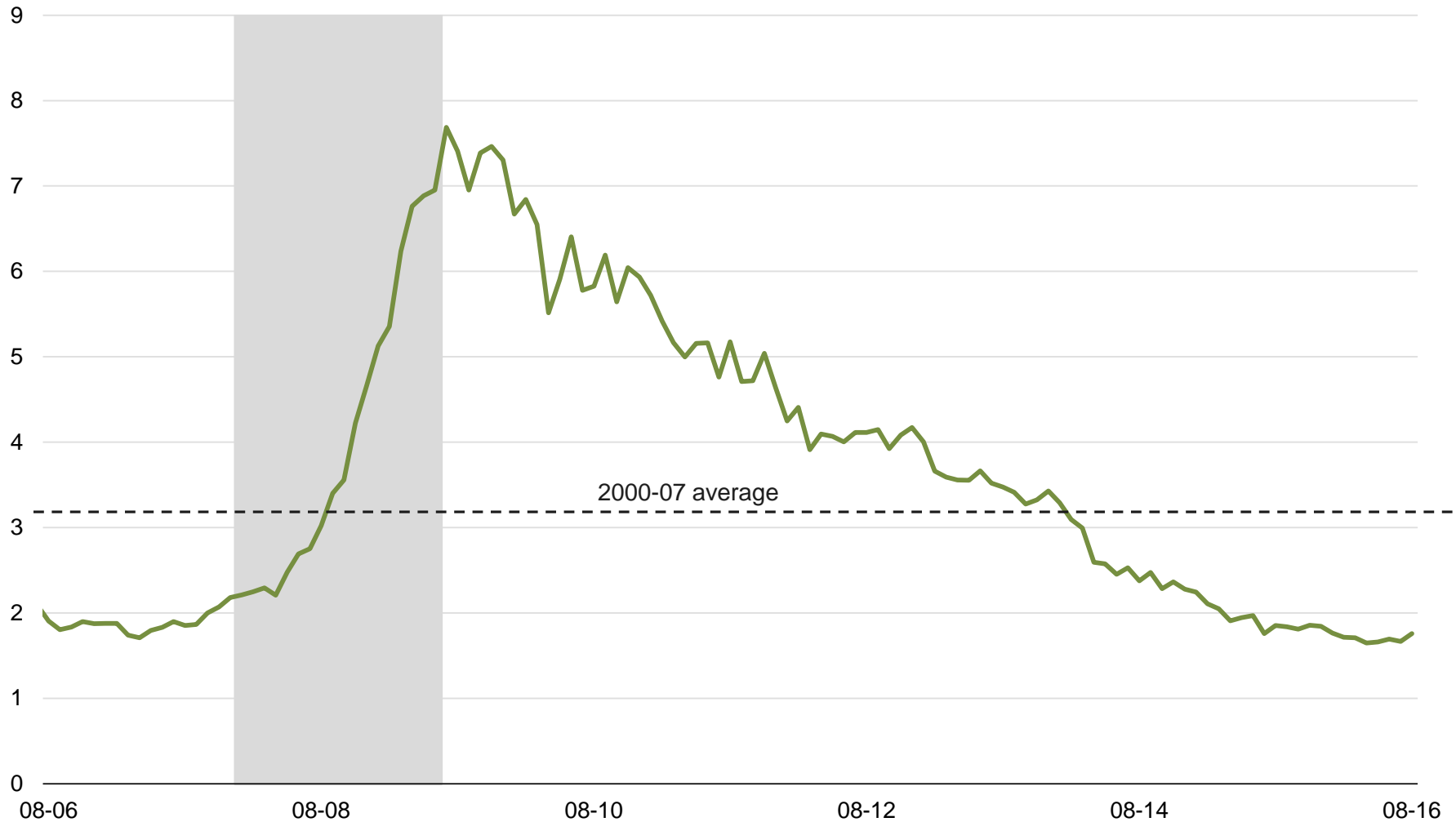
The U.S. economy added a net 161,000 new jobs in October, well above the threshold needed to continue to make progress in the labor market.



The number of workers per job opening has fallen below its pre-crises average, suggesting that the economy may be nearing “full employment.”

Number of Workers per Job Opening

(# of unemployed persons + # marginally attached / total # of job openings)

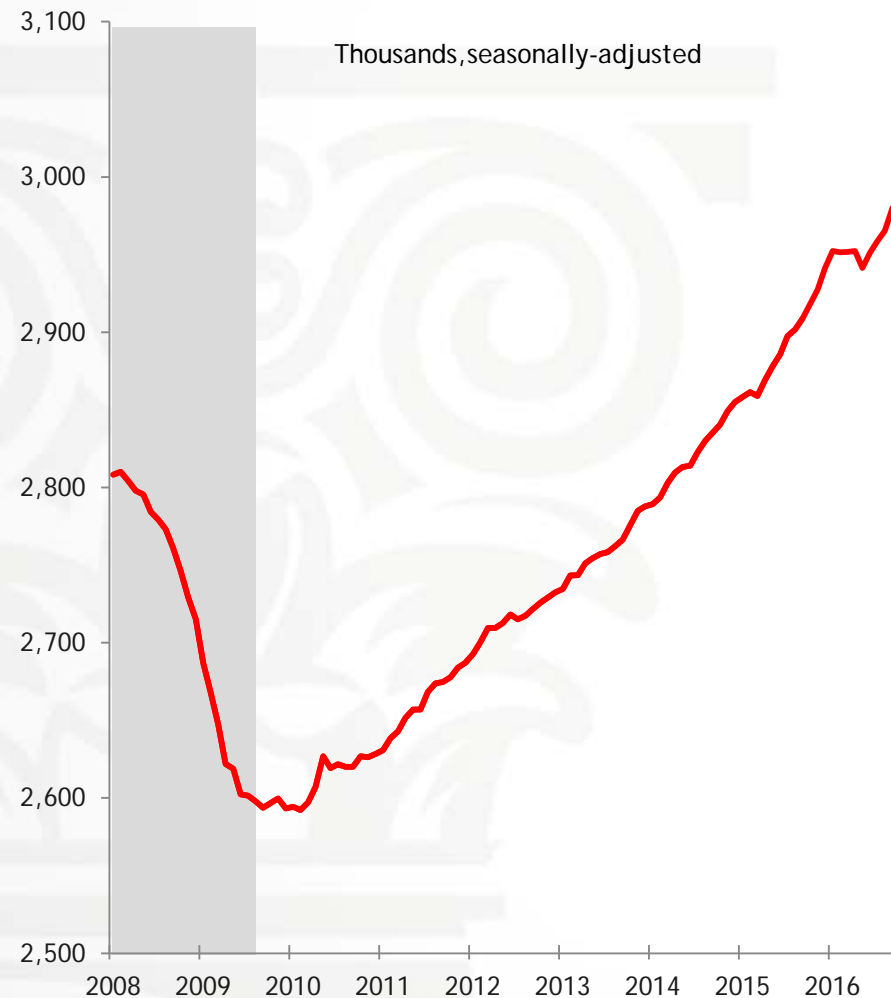


Sources: Job Openings and Labor Turnover Survey, BLS

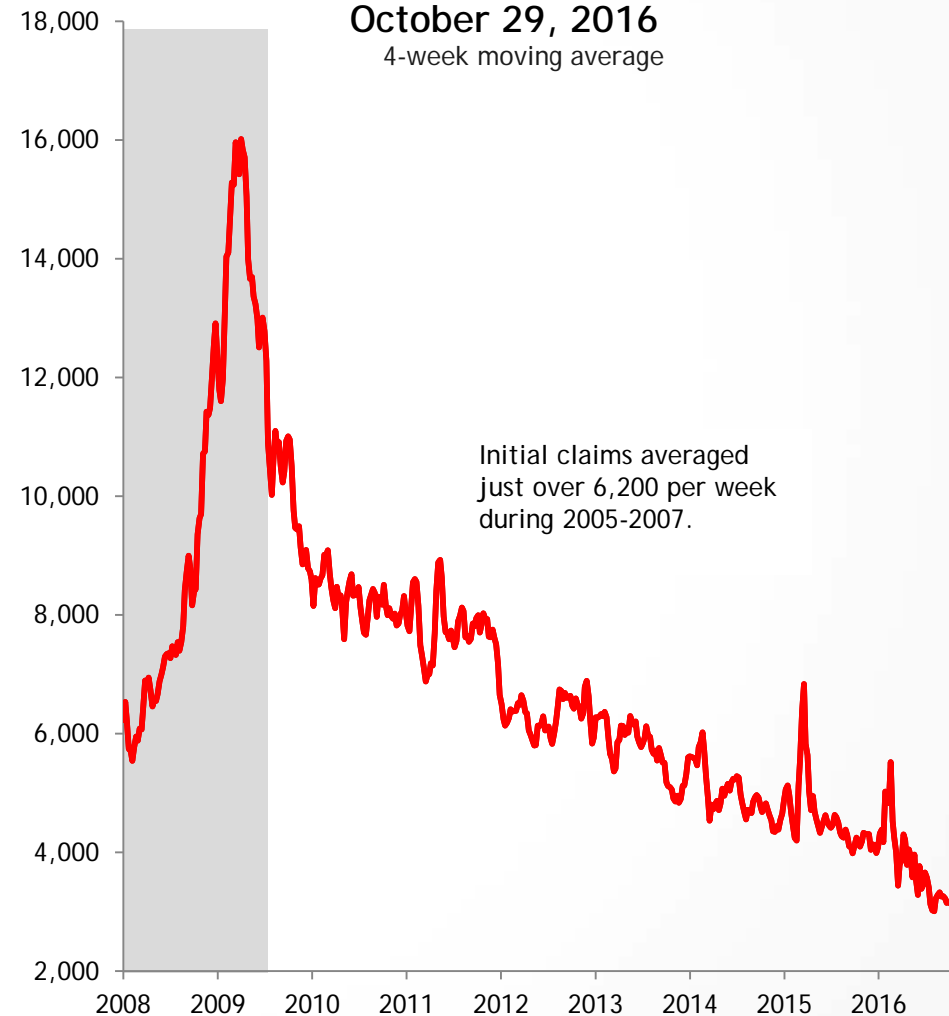
through August 2016

In Tennessee, both payroll employment and initial unemployment insurance claims have slowly returned to and surpassed pre-recession levels and continue to show signs of improvement

Tennessee Payroll Employment
September 2016

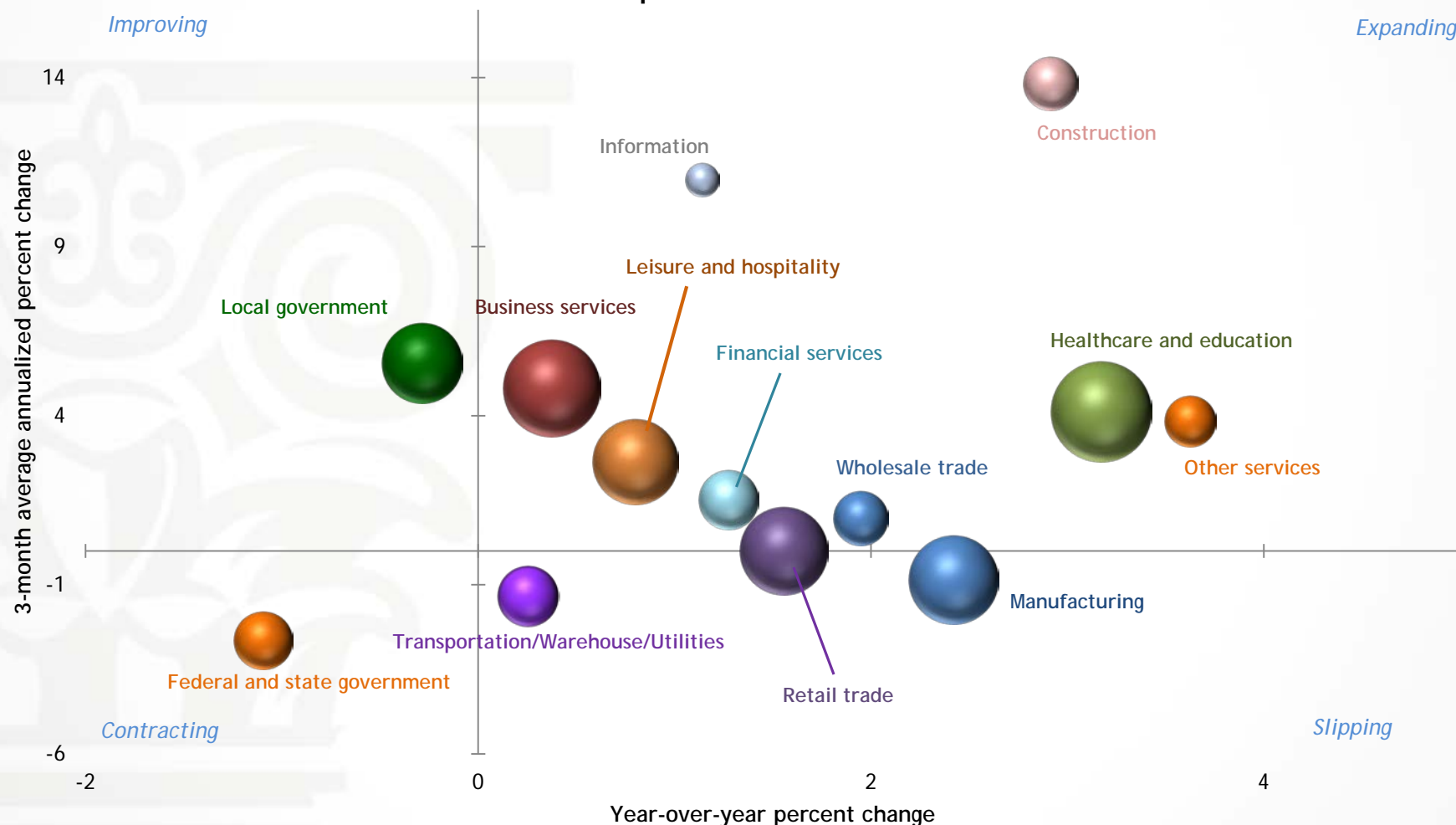


Initial Unemployment Insurance
Claims: Tennessee
October 29, 2016
4-week moving average



Employment growth momentum in Tennessee has been positive, with employment in most industries expanding over both the past 3 and 12 months

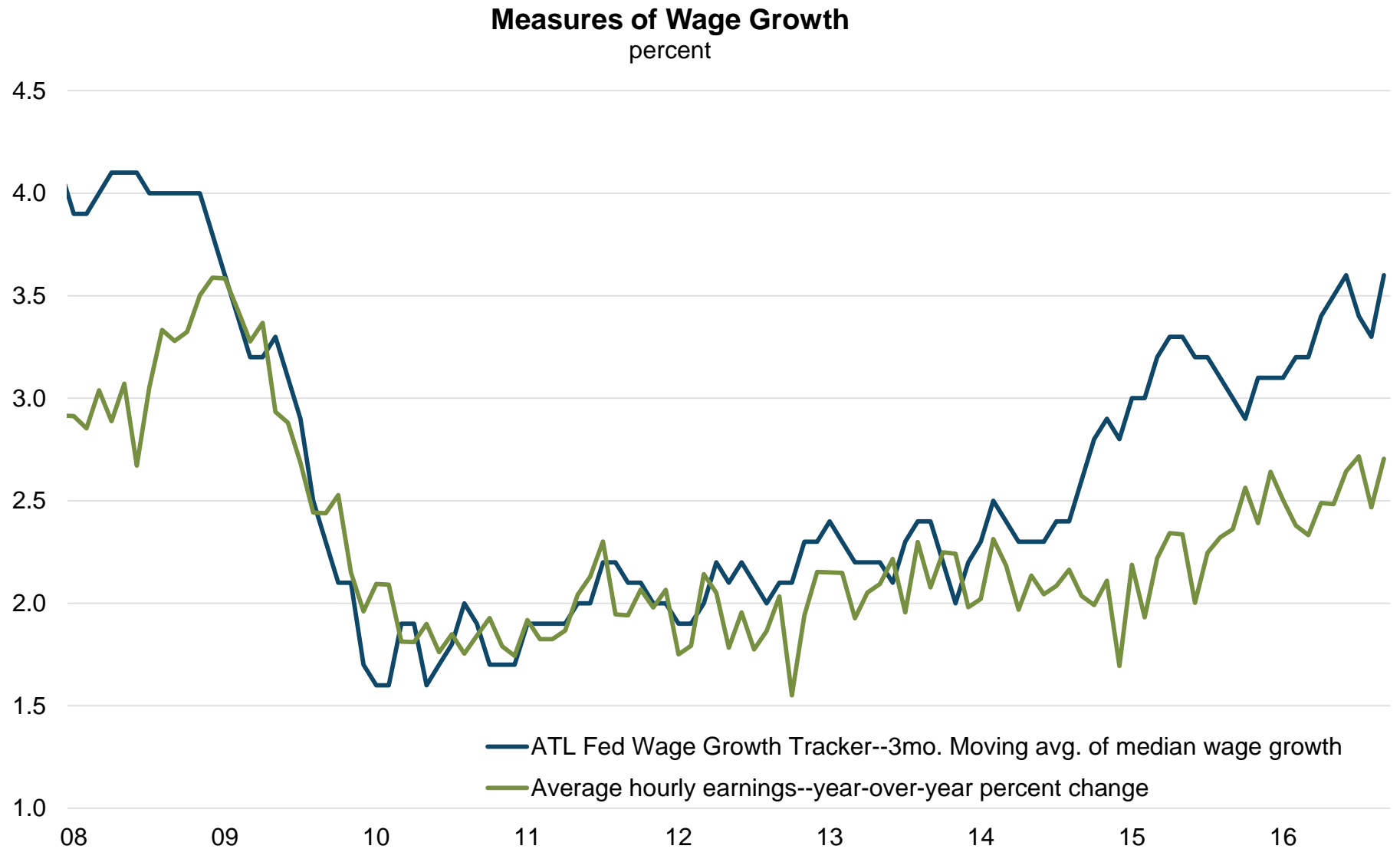
Employment Momentum by Industry: Tennessee
September 2016



Wage growth over the past year and a half has accelerated moderately, perhaps another sign that labor market conditions are tightening.



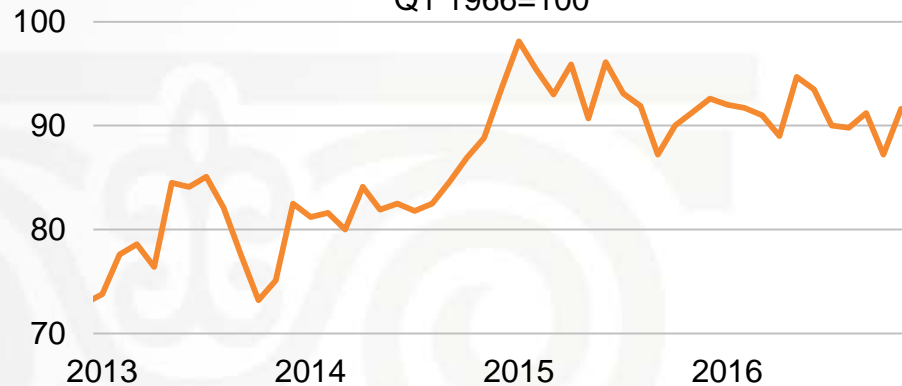
The wage acceleration is more pronounced when we look at pay for individuals in the same positions.



Looking at a variety of indicators, the fundamentals for consumer spending appear favorable overall.

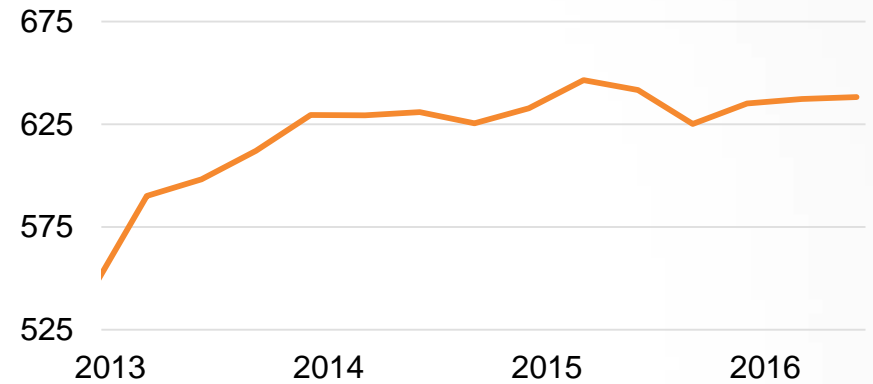
University of Michigan Consumer Sentiment Index

Q1 1966=100



Source: University of Michigan Survey of Consumers through November 2016

Household Wealth as a Percent of Disposable Personal Income

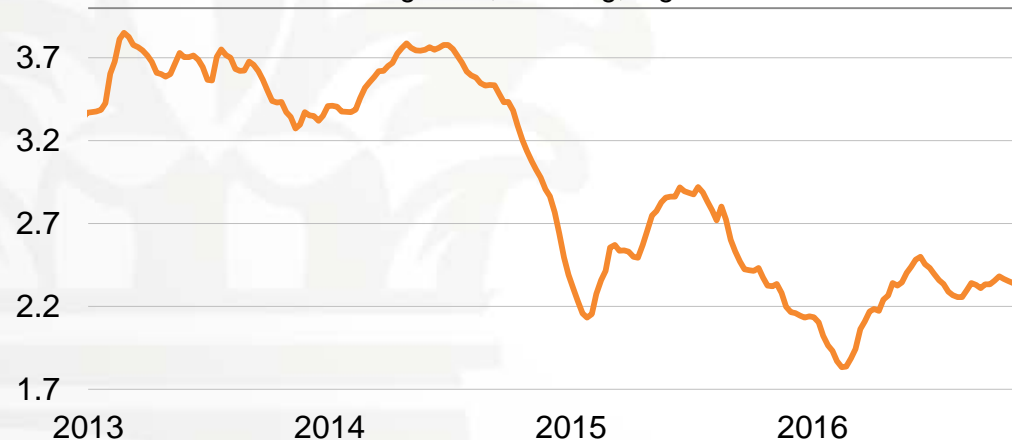


Source: Federal Reserve Board

through Q2 2016

Retail Gasoline Price

all grades, U.S. avg, \$/gallon

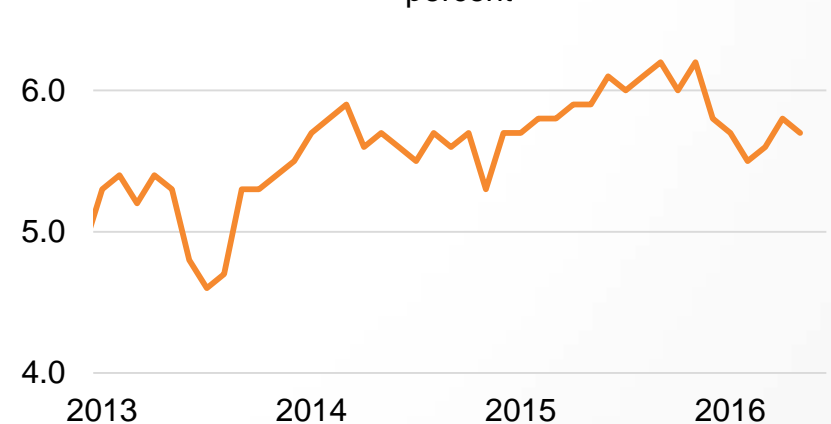


Source: Energy Information Administration

through November 7, 2016

Personal Savings Rate

percent

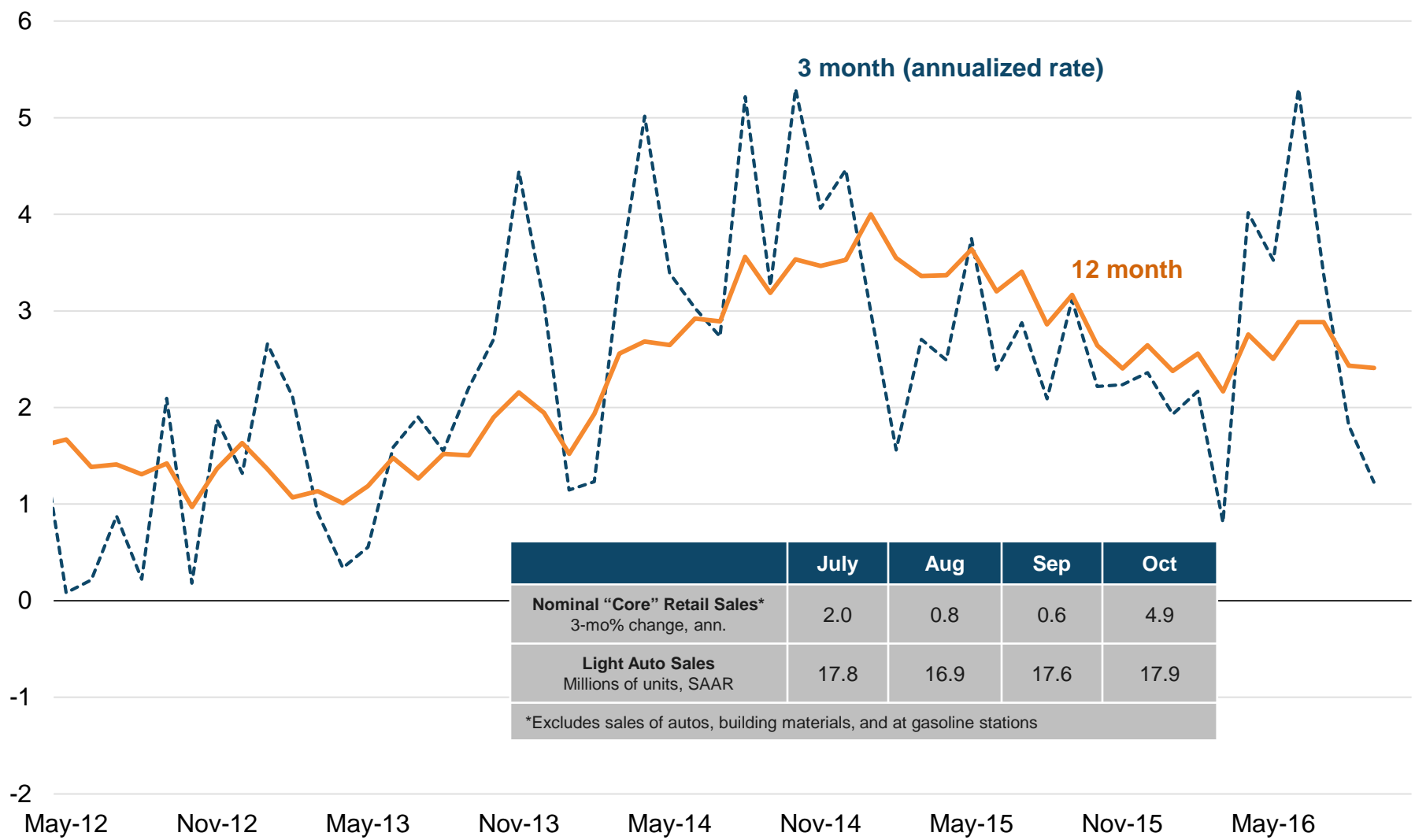


Source: Bureau of Economic Analysis

through September 2016

The trend in consumption growth continues to look positive and, following a few months of weaker readings, October's core retail sales numbers showed some welcome strength. Total vehicle sales have leveled off in recent months.

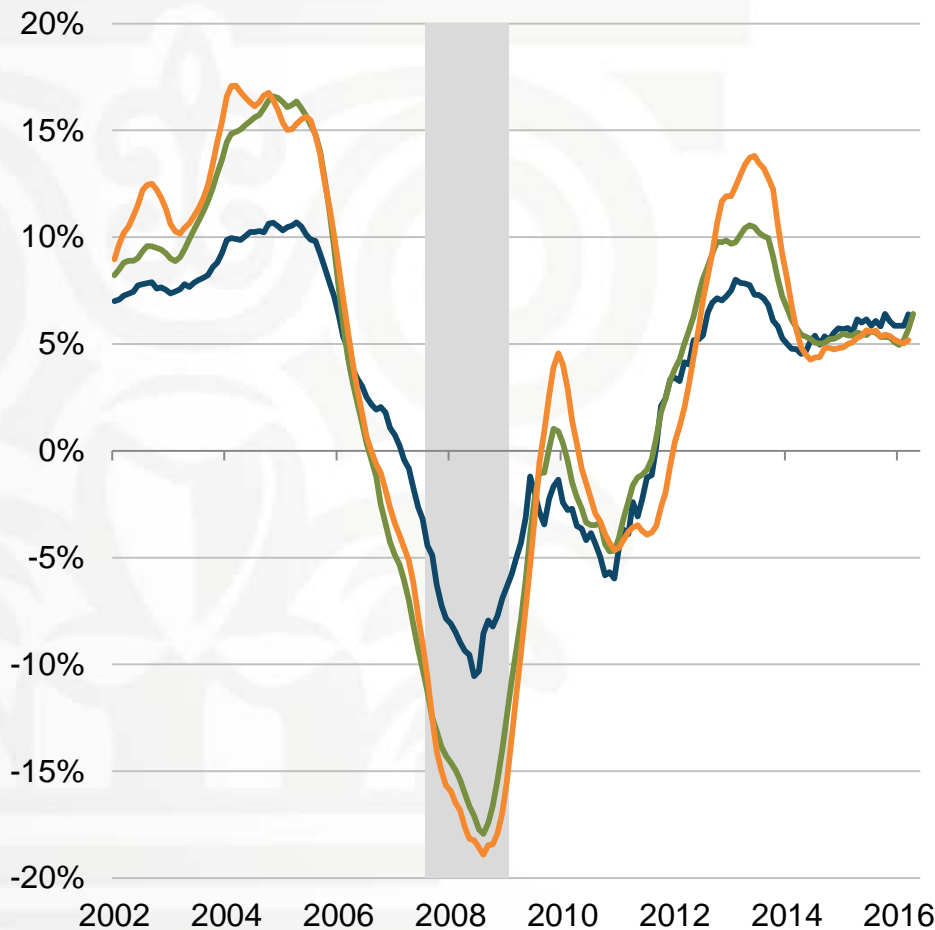
Real Personal Consumption Expenditures
percent



The housing market continues to expand, with home prices besting inflation and with sales of both new and existing homes continuing to grow at a slow, steady pace.

U.S. House Prices

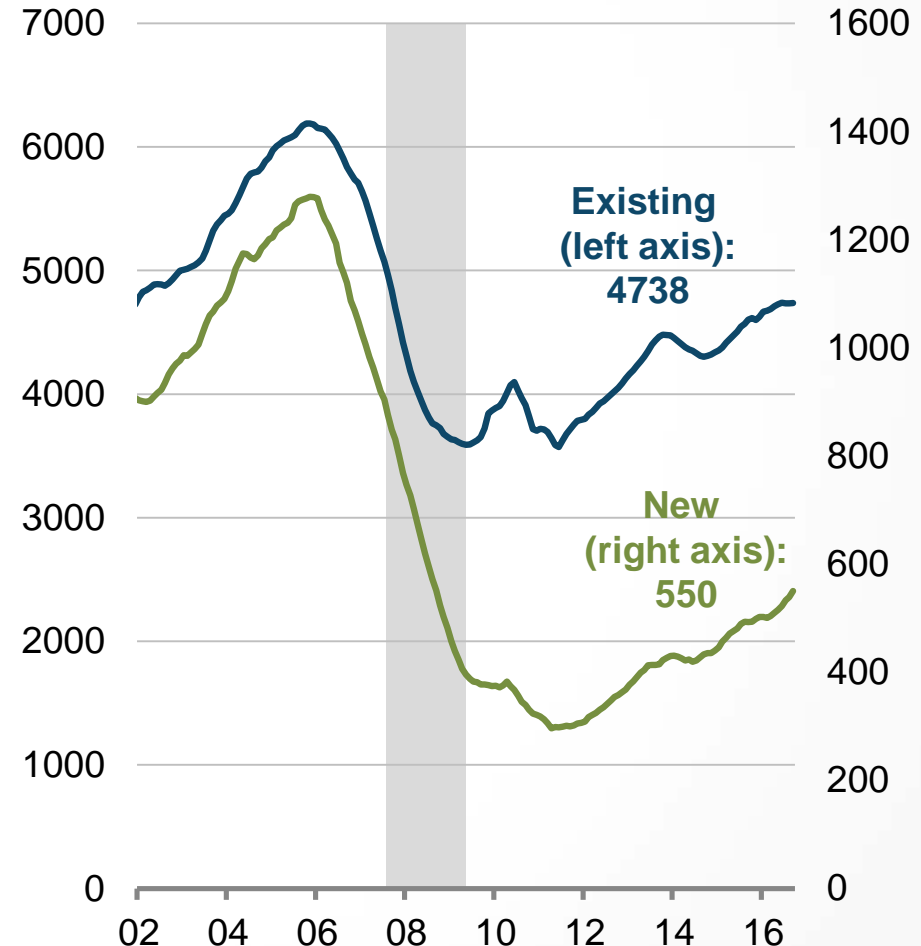
monthly index, year-over-year percent change



FHFA and S&P/Case-Shiller through August, CoreLogic through September 2016

U.S. Single Family Homes Sales

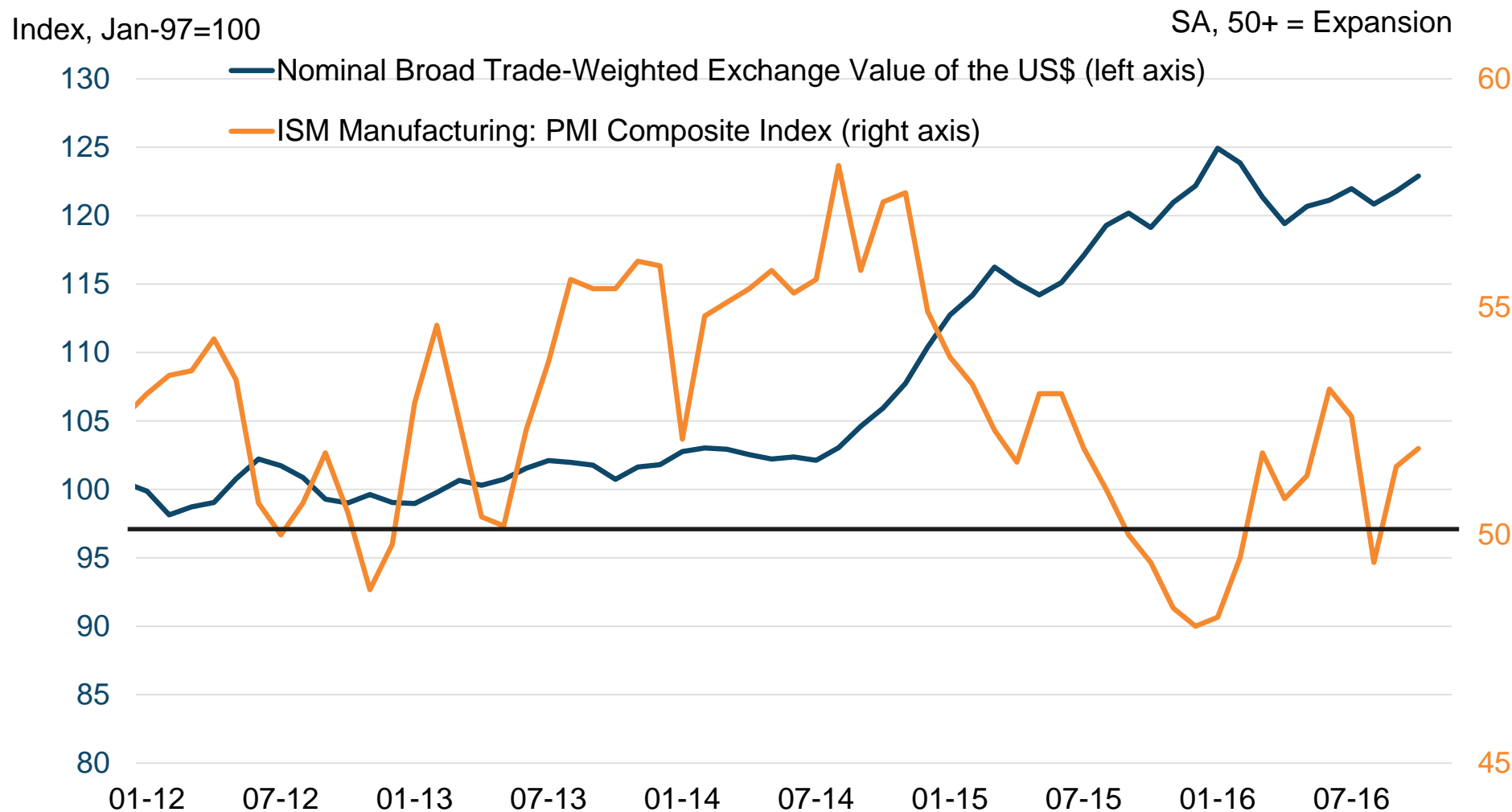
12-month moving average, thousands SAAR



Sources: National Association of Realtors and U.S. Census Bureau through September 2016

The manufacturing sector has struggled over the past two years in the midst of a shrinking energy sector and broad appreciation of the dollar compared to US trading partners' currencies.

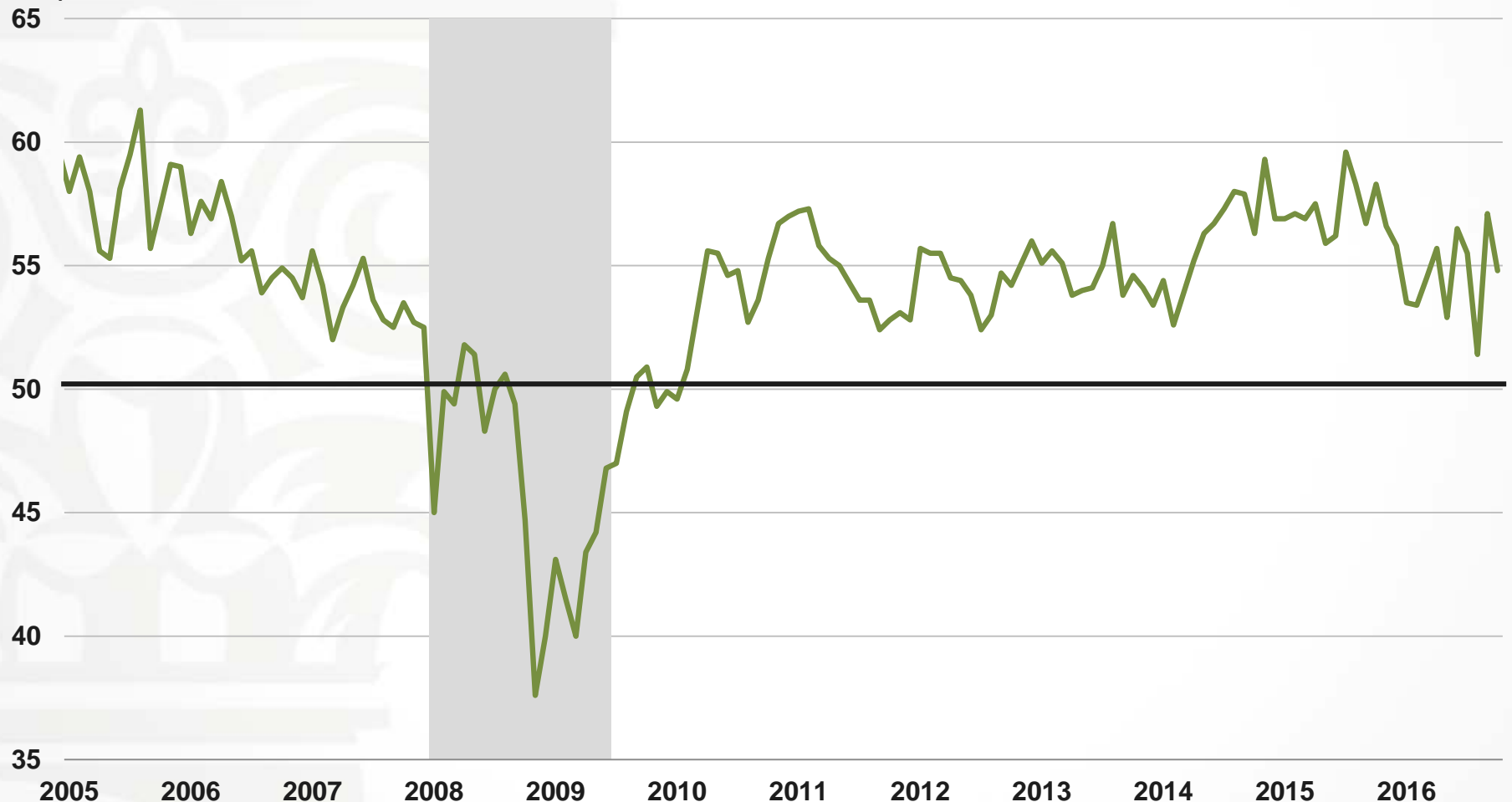
The Dollar and the Manufacturing Sector



The services sector, which makes up a much larger share of the US economy (80%), appears to be healthy and expanding.

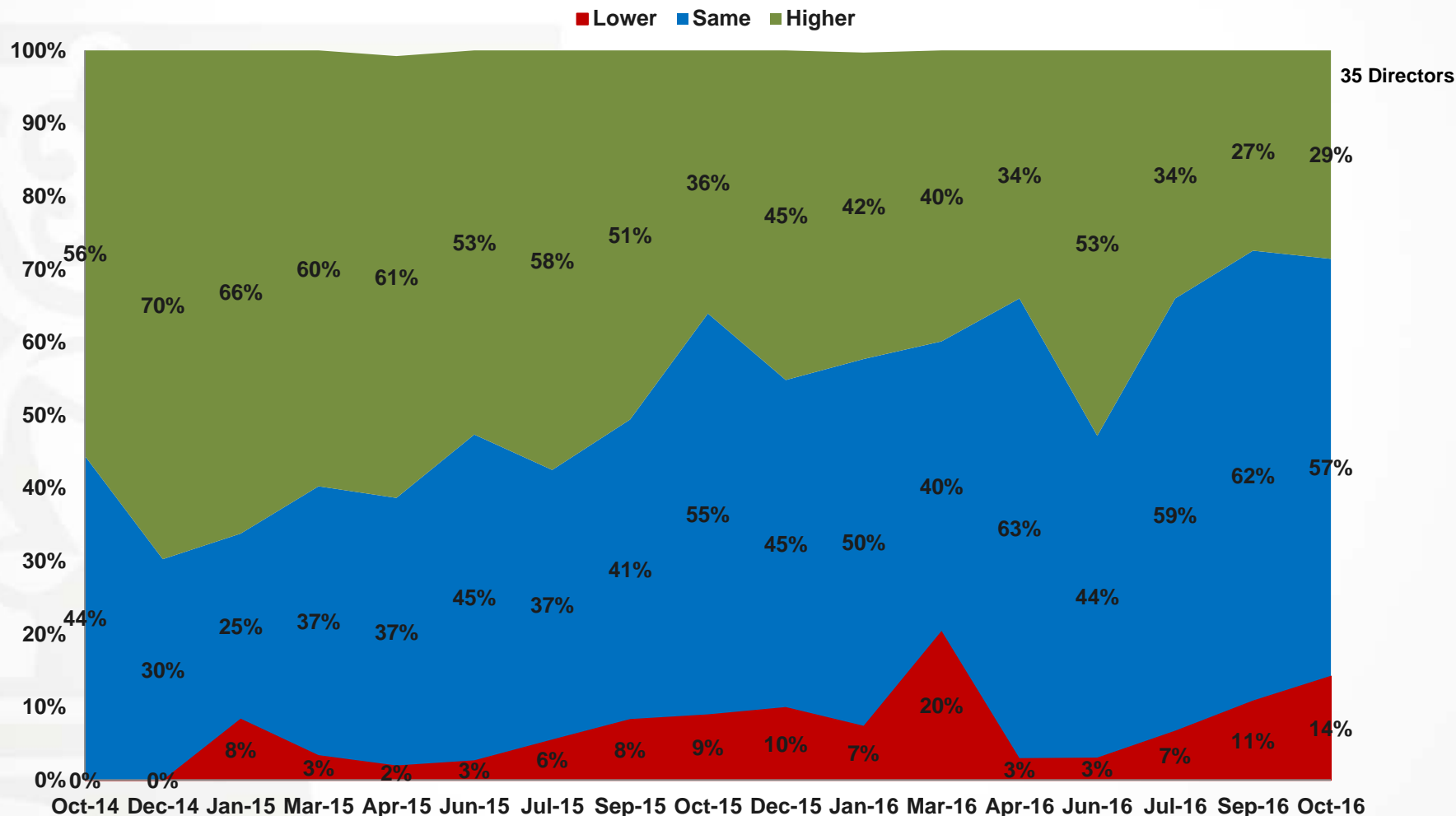
ISM Non-Manufacturing Index

seasonally adjusted, index, 50 or greater indicates expansion, less than 50 indicates contraction



Our directors' optimism with respect to the short-term outlook for their businesses has been steadily waning, as evidenced by a shift from expecting growth to accelerate (green) to expecting the same (blue) or declining (red) rates of growth.

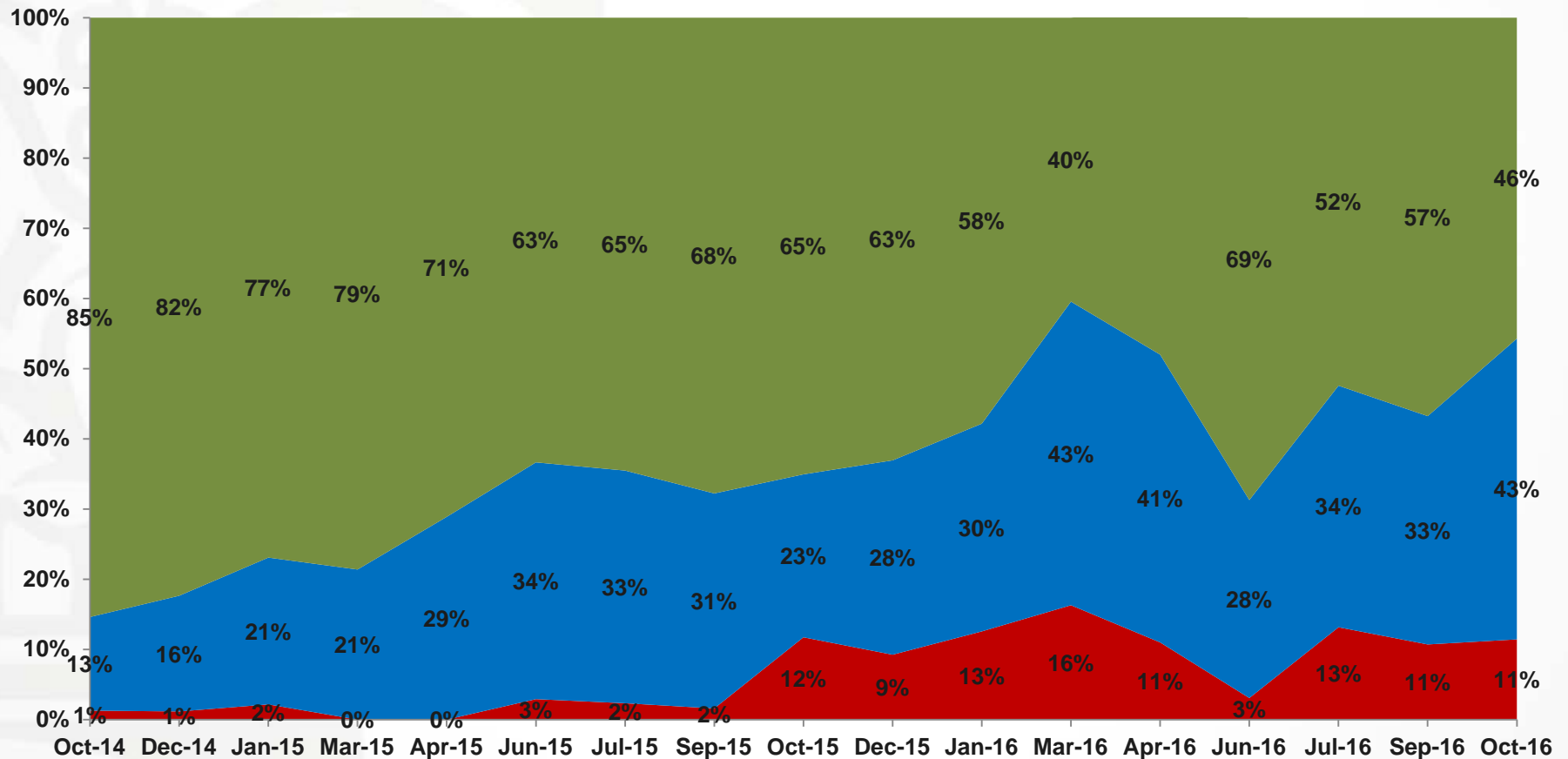
What is your outlook for the rate of growth in your business over the next 3 to 6 months compared to current rates?



While slippage has also occurred with respect to directors' medium-term outlooks for the rate of growth in their businesses, about half continue to expect their rate of growth to accelerate.

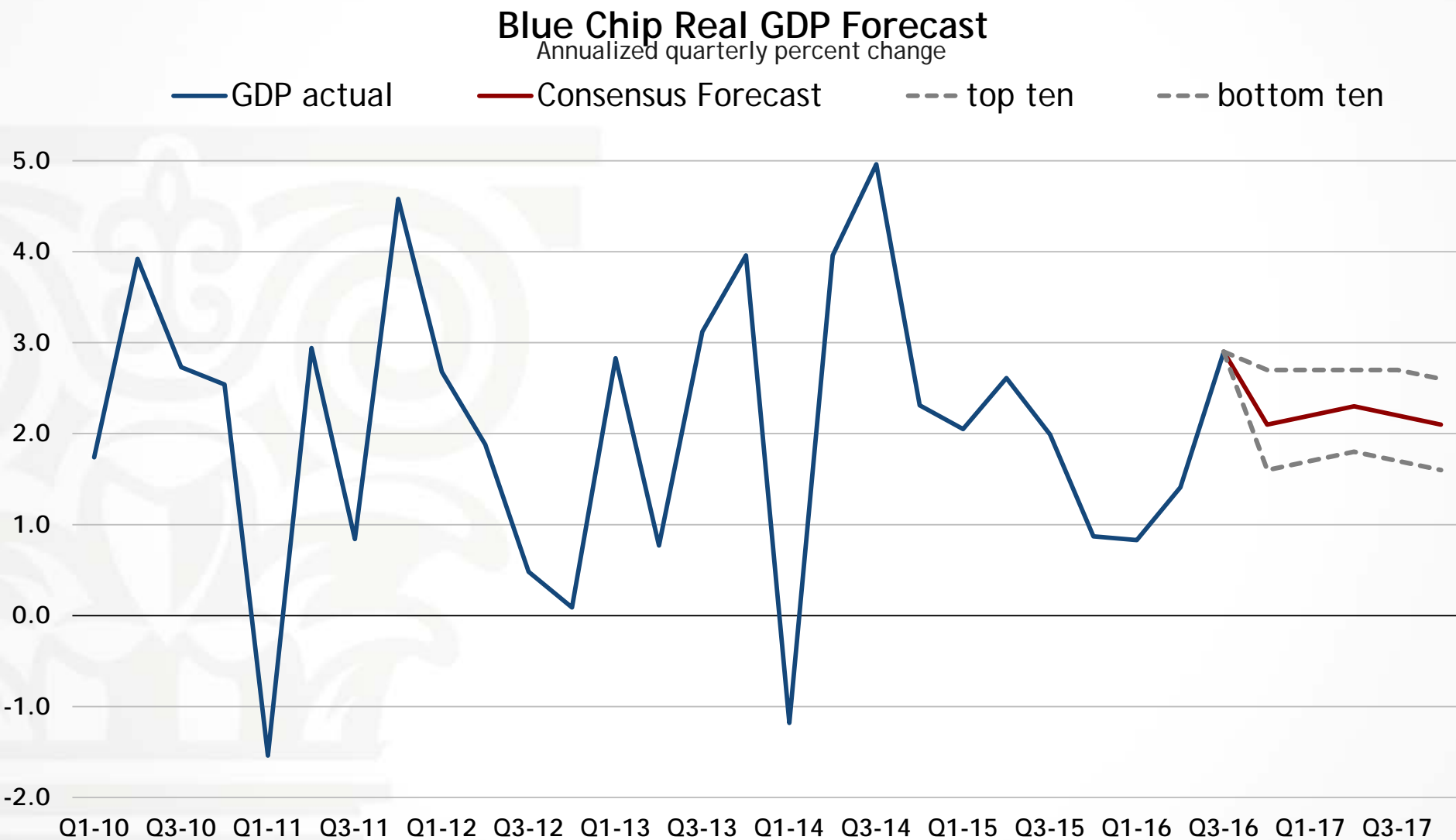
What is your medium-term outlook (over the next two to three years) for the rate of growth in your business compared to current rates?

■ Lower ■ Same ■ Higher



Source: FRB Atlanta

**With respect to the outlook for the economy going forward,
private economists expect GDP to expand at roughly 2.2%
through the end of next year**



Dennis Lockhart's perspective

“For me there is a relatively high bar in pure economic terms for not moving in December.”

“Post-election we may end up with enough turmoil around the election to create a different set of conditions— there are other things that go on in the world that can give pause, and I don't completely rule those out.”

- Atlanta Fed President Dennis Lockhart, 11/4/2016

What we're hearing anecdotally from Tennessee business contacts:

Cautious optimism from domestically oriented contacts; businesses whose activity is tied to foreign demand are facing sizeable headwinds

On balance, Tennessee businesses contacts are moderately optimistic about the growth of activity next year.

Specifically:

- **Firms that derive most of their sales domestically are generally fairly optimistic.**
- **The strong dollar and muted global demand continue to weigh on growth expectations for many foreign-oriented companies.**
- **Travel and tourism activity remains a bright spot.**
- **Real estate fundamentals continue to be positive.**
- **Even with declines in some input costs, many businesses have been able to hold the line on prices, supporting margins.**
- **Employment trends continue to be positive, though trend varies by industry, skill and geography**



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